

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2287-01
Bill No.: SB 4
Subject: Taxation and Revenue - Sales and Use; Tobacco; Gambling
Type: Original
Date: June 6, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$269,963,674	\$361,528,062	\$359,826,563
Total Estimated Net Effect on General Revenue Fund*	\$269,963,674	\$361,528,062	\$359,826,563

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Hancock Health, Education & Safety Surcharge Fund	\$0	\$0	\$0
Gaming Proceeds for Education Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds*	\$0	\$0	\$0

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government*	\$61,200,000	\$81,600,000	\$81,600,000

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

FISCAL ANALYSIS

ASSUMPTION

Department of Revenue (DOR) officials state this legislation:

Adds Section 136.420, which establishes the Hancock Health, Education, and Safety Surcharge Fund in the State Treasury.

Adds Section 143.1020, which indicates that after January 1, 2003, an income tax surcharge is imposed equal to 5% on the state liability for an individual taxpayer with federal adjusted gross income (FAGI) of \$200,000 or more.

Adds Section 149.089, which imposes a surcharge of 27 ½ mills per cigarette for a total of 72 cents per pack total cigarette tax.

Adds Section 149.091, which imposes a surcharge on the first sale of tobacco products, other than cigarettes, at the rate of 20% of the manufacturer's invoice price before discounts and deals. Surcharge is to be paid by the person making the first sale with the state.

Adds Section 313.828, which imposes a surcharge on an excursion boat licensee, and paid to the gaming commission.

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ASSUMPTION (continued)

Adds Section 313.829, which imposes a surcharge at the rate of 5% on the adjusted gross receipts received from gambling games.

Administrative Impact:

Section 136.420: This section creates the fund administered by the State Treasurer. No additional impact to DOR.

Section 143.1020: Modifications will need to be done to the MINITS, Speedup and E-file programs to allow for the additional lines needed on the returns for the taxpayers to figure and pay the 5% surcharge. DOR estimates that 1,730 hours of programming at a cost of \$57,712 for the programming and testing will be needed. Personal Tax will need 2 Tax Season Temporaries to handle the key entry of the estimated 1.5 million paper returns (this figure is used since E-file will be electronically downloaded and the remaining paper returns will have to either have the lines keyed or tabbed through which is additional key strokes). One Tax Processing Tech I will be needed for every 30,000 additional errors credited by this legislation and One Tax Processing Tech I for every additional 3,000 pieces of correspondence.

Note: Taxation assumes that the surcharge would be for the entire year even though the effective date of this legislation is the first month following approval by a vote of people. If it is a prorated surcharge, there will be additional costs.

Section 149.089: Revision to the forms and programs will be needed. DOR anticipates this impact will be minimal.

Section 149.091: Revision to the forms and programs will be needed. DOR anticipates this impact will be minimal.

Section 313.828: The surcharge is to be paid to the Gaming Commission, however, the legislation does not indicate where the \$1.75 should be deposited. No impact on DOR.

Section 313.829: No additional impact, DOR assumes this would be collected by the Gaming Commission and cashiered through DOR.

Revenue Impact:

DOR defers the revenue impact on all provisions of this bill to the Office of Administration,

Budget and Planning.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the two Tax Processing Technicians to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** state:

1. 135.420 – Establishes the Hancock Health, Education and Safety Surcharge Fund, details ballot language, outlines effective date for referendum provisions, excludes revenues from TSR, and includes rule making language. Subsection 3 specifies that all money in the Hancock Health, Education and Safety Surcharge Fund shall be credited to the state's General Revenue Fund (except for section 313.829). This section has no fiscal impact.
2. 143.1020 – Establishes a five percent surcharge on Missouri taxable incomes greater than \$200,000. This provision is expected to generate \$11.9 million annually.
3. 149.089 – Establishes a 27-½ mills per cigarette surcharge. This provision is expected to generate \$213 million in FY 2004, \$284 million in FY 2005, and \$281.3 million in FY 2006.
4. 149.091 – Establishes a 20 percent surcharge on other tobacco products. This provision is expected to generate \$14.9 million in Fiscal Year 2004, \$19.8 million in Fiscal Year 2005, and \$20.8 million in FY 2006.
5. 313.828 – Establishes a \$1.70 per day surcharge on gambling boat admissions. This provision is expected to generate \$34.4 million in Fiscal Year 2004 (assumes October 1 effective date) and \$45.9 million in Fiscal Years 2005 and 2006.
6. 313.829 – Establishes a five percent surcharge on riverboat adjusted gross receipts. This provision is expected to generate \$61.2 million in Fiscal Year 2004 (assumes October 1 effective date) and \$81.6 million in Fiscal Years 2005 and 2006, to be transferred to the Gaming Proceeds for Education Fund.

Officials of the **Secretary of State (SOS)** assume statewide newspaper publication of constitutional amendments cost approximately \$1,161 per column inch based on an estimate

provided by the Missouri Press Service x 3 for multiple printings as required by the Constitution and state statute = \$3,485 per column inch. SOS estimates the total number of inches for this amendment to be 30 inches, which includes title header and certification paragraph. (\$3,485 x 30

ASSUMPTION (continued)

inches = \$104,550.)

SOS assumes this bill creates the Hancock Health, Education , and Safety Surcharge Fund. Based on experience with other divisions the rules, regulations and forms issued by the Department of Revenue could require approximately 20 pages in the Code of State Regulations. For any given rule, roughly one-half again as many pages are published in the Missouri Register as are published in the Code because of cost statements, fiscal notes and notices that are not published in the Code. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. SOS assumes the cost would be \$1,230 for FY 04. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, and withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Mental Health**, the **Department of Social Services** and the **Department of Health and Senior Services** state that while this legislation creates new revenue, none of those revenues are specifically earmarked for their respective agencies and therefore they assume no fiscal impact from this legislation.

Officials of the **Department of Elementary and Secondary Education (DES)** assume except as provided in section 313.829, all money deposited into the Hancock Health, Education, and Safety Surcharge Fund, which shall consist of revenue derived from the voter approved surcharges, shall be credited to the state General Revenue Fund, unless otherwise appropriated by the General Assembly.

DES defers to the DOR regarding the amount of revenues resulting from the surcharges imposed per Sections 143.1020, 149.089, and 149.091.

DES assumes Section 313.828 would impose a surcharge in the amount of \$1.75 for each person embarking on an excursion gambling boat for the first time during each gaming day. Per the Missouri Gaming Commission's FY 02 Annual Report, the number of statewide patrons totaled 22,566,000. A surcharge of \$1.75 for each of those patrons equals \$39,490,500 which would be deposited into the Hancock Health, Education, and Safety Surcharge Fund.

ASSUMPTION (continued)

Section 313.829 would impose an additional surcharge on the adjusted gross receipts received from excursion gambling boats. The surcharge would be deposited into the Hancock Health, Education, and Safety Surcharge Fund and transferred to the gaming proceeds for education fund. Per the Missouri Gaming Commission's FY 02 Annual Report, adjusted gross receipts were \$1,212,125,485. Five percent of adjusted gross receipts equals \$60,606,274, which would be transferred into the gaming proceeds for education fund.

Officials of the **City of Kansas City** assume this proposal has the potential to create a negative impact on Kansas City.

Officials from the **Gaming Commission, City of St. Louis, City of St. Joseph, and Buchanan County** did not respond to our fiscal note request.

In response to a similar proposal, officials from the **Office of Administration** assumed the election costs for a special election would be approximately \$4 million.

Since this legislation is subject to voter referendum, **Oversight** assumes this proposal would have no state fiscal impact without voter approval. **Oversight** assumes the proposal would be on the ballot for the first Tuesday in August 2003. If approved by voters, **Oversight** assumes this proposal would not be effective until the first day of the first month following the election.

This proposal would result in an increase in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Transfer In - General Revenue</u>			
Hancock Health, Education, and Safety Surcharge Fund receipts	\$274,200,000	\$361,600,000	\$359,900,000

Cost - Dept. of Revenue

Personal Service (2 FTE, 2 Temp)	(\$44,250)	(\$51,425)	(\$52,386)
Fringe Benefits	(\$12,657)	(\$15,561)	(\$15,950)
Expense and Equipment	(\$17,157)	(\$4,952)	(\$5,101)
Programming	<u>(\$57,712)</u>	<u>\$0</u>	<u>\$0</u>
Total Cost - DOR	(\$131,776)	(\$71,938)	(\$73,437)
<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
	(10 Mo.)		

Cost - Secretary of State

Publication costs	(\$104,550)	\$0	\$0
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Cost - Office of Administration

Special election costs	<u>(\$4,000,000)</u>	<u>\$0</u>	<u>\$0</u>
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**TOTAL ESTIMATED NET EFFECT
 ON GENERAL REVENUE FUND***

<u>\$269,963,674</u>	<u>\$361,528,062</u>	<u>\$359,826,563</u>
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* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

**HANCOCK HEALTH, EDUCATION
 AND SAFETY SURCHARGE FUND**

Income - Hancock Health, Ed, & Safety

5% surcharge on individuals	\$11,900,000	\$11,900,000	\$11,900,000
27 ½ mills per cigarette surcharge	\$213,000,000	\$284,000,000	\$281,300,000
20 % surcharge on other tobacco products	\$14,900,000	\$19,800,000	\$20,800,000
\$1.70 per day surcharge on gambling boat admissions	\$34,400,000	\$45,900,000	\$45,900,000
5% surcharge on river boat adjusted gross receipts	<u>\$61,200,000</u>	<u>\$81,600,000</u>	<u>\$81,600,000</u>
Total Income	\$335,400,000	\$443,200,000	\$441,500,000

<u>Transfer Out - to General Revenue Fund</u>	(\$274,200,000)	(\$361,600,000)	(\$359,900,000)
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Transfer Out - to Gaming Proceeds for
 Education Fund

(\$61,200,000) (\$81,600,000) (\$81,600,000)

FISCAL IMPACT - State Government

FY 2004
 (10 Mo.)

FY 2005

FY 2006

**TOTAL ESTIMATED NET EFFECT
 ON THE HANCOCK HEALTH,
 EDUCATION AND SAFETY
 SURCHARGE FUND***

\$0

\$0

\$0

* This proposal is permissive. Voter
 approval would be required before fiscal
 impact would be realized.

**GAMING PROCEEDS FOR
 EDUCATION FUND**

Transfer In - from the Hancock Health,
 Ed & Safety Surcharge Fund

5% surcharge on river boat adjusted
 gross receipts

\$61,200,000

\$81,600,000

\$81,600,000

Transfer Out - to Local School Districts

(\$61,200,000)

(\$81,600,000)

(\$81,600,000)

**TOTAL ESTIMATED NET EFFECT
 ON THE GAMING PROCEEDS FOR
 EDUCATION FUND***

\$0

\$0

\$0

* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

FISCAL IMPACT - Local Government

FY 2004
 (10 Mo.)

FY 2005

FY 2006

LOCAL SCHOOL DISTRICTS

Transfer In - to Local Schools

5% surcharge on river boat adjusted
gross receipts

\$61,200,000

\$81,600,000

\$81,600,000

TOTAL ESTIMATED NET EFFECT

ON LOCAL GOVERNMENT*

\$61,200,000

\$81,600,000

\$81,600,000

* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

FISCAL IMPACT - Small Business

Some small businesses would be required to collect the additional surcharges on cigarettes and other tobacco products as a result of this proposal.

DESCRIPTION

This proposal applies a 5% surcharge on individual income over \$200,000. The proposal raises the cigarette tax by 55 cents and the tobacco tax by 20%. The proposal raises the admission fee on gaming boats by \$1.70. The act raises the AGR tax on gaming boats by 5%. The proposal submits these increases to a vote of the people, and contains ballot language to this extent.

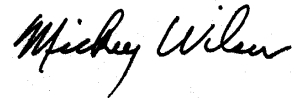
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning
Secretary of State
Department of Mental Health
Department of Health and Senior Services
Department of Social Services
Department of Elementary and Secondary Education
City of Kansas City

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NOT RESPONDING:
Gaming Commission
City of St. Louis
City of St. Joseph
Buchanan County

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
June 6, 2003